EXHIBIT 23

U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

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BEFORE THE HOUSE COMMITTEE ON FINANCIAL SERVICES

WASHINGTON- Chairman Frank, Ranking Member Bachus, Members of the Committee, good morning. I very much appreciate the opportunity to appear before you today to present the Treasury Department's perspective on the recent events in the credit and mortgage markets and their impact upon consumers and the economy. The Treasury Department and Secretary Paulson know that these events are of considerable interest to the American people, this Committee, and other Members of Congress.

To give context to the current market situation, I would like to begin my remarks today with a description of both domestic and global economic conditions. In the United States, the unemployment rate is at 4.6%, close to its lowest reading in 6 years. Real GDP growth was 4.0 percent in the second quarter, supported by strong gains in business investment and exports. Core inflation is under control. Since August 2003, 8.3 million jobs have been created, more jobs than all the major industrialized countries combined; over the past 12 months, nearly 2 million jobs have been created. Real wages have increased 1.7% over the past 12 months. In the corporate sector, earnings continue to outperform expectations and default rates on corporate credits of all kinds are at historically low levels. On the government side, the U.S. fiscal deficit is declining and well below long-term averages as a share of the economy, reflecting strong revenue growth and the continued strength of the U.S. economy.

The global economy continues to grow at around 5% annually, with many emerging market economies growing even more rapidly than the global average.[1] The advanced economies also continue to perform well, with unemployment down sharply in Europe, helping to make growth of the last several years the strongest since the early 1970s.[2]

The Treasury Department, as the steward of economic and financial systems in the United States, is committed to ensuring these strong U.S. and global economic fundamentals. At the same time, the Treasury Department's mission includes the promotion of economic stability. It is important to appreciate that the core fundamental economic environment is strong globally, and it is against this backdrop that I turn to the current credit and market challenges.

General Trends in the Mortgage Industry

[1] International Monetary Fund, *World Economic Outlook Update: An Update of the Key WEO Projections* 1 (July 2007).
[2] International Monetary Fund, *World Economic Outlook: Spillovers and Cycles in the Global Economy* xiii (April 2007).

As just discussed, over the past several years the United States has enjoyed favorable economic conditions: low unemployment, low inflation, and low interest rates. These positive conditions served to fuel a demand for credit and investment and the marketplace responded with a vast supply of both to satisfy consumers and sophisticated market participants. At the consumer level, this demand was very noticeable in the mortgage industry, and in recent years particularly, the subprime arena. For the first time, in the early 1990s, consumers with lower incomes and challenged credit history—typical subprime borrowers—were able to gain access to mortgage credit at interest rates a few percentage points higher than prime borrower rates. Homeownership became more widely available in the United States, growing from 64% in 1994 to 69% today, some of that due to subprime mortgage origination volume, which increased from less than 5%, or $35 billion, of total mortgage origination volume in 1994 to nearly 20%, or $625 billion, in 2005.[3]

Mortgage securitization has fundamentally changed the mortgage industry and has played a significant role in the growth of the mortgage market. Typically in a private label mortgage securitization, the mortgage originator transfers loans to a securitization sponsor, who pools together mortgages into mortgage-backed securities, and sells pieces, or tranches, of these securities to investors. Thus, the mortgage originator, instead of holding the mortgage loan on its balance sheet, distributes the loan and its attendant risks to a securitization sponsor in return for capital. The credit rating agencies work closely with the sponsor to rate the credit risk of each tranche.

These innovative securities offered sophisticated investors a diversification tool and the ability to better target their risk/return profile. The demand for mortgage-backed securities has been global in nature and has helped to provide mortgage originators with a steady stream of capital. Over 55% of total mortgage origination volume and over 70% of subprime mortgage origination volume were securitized in 2006.[4] Further fueling this growth has been the development of another structured product, the collateralized debt obligation, which purchases asset-backed securities, such as mortgage-backed securities. Mortgage-backed CDOs, nearly 40% of the entire $500 billion CDO market in 2006,[5] have been one of the major purchasers of mortgage-backed securities, in particular the lower rated tranches.

Recent Mortgage Market and Credit Market Events

Through most of the 1990s, annual mortgage origination stood at approximately $1 trillion.[6] With the historically low interest rate environment of 2001-2003, mortgage origination climbed to nearly $4 trillion in 2003.[7] Infrastructure build-up and the entry of many new participants into the mortgage industry matched this increase. With the rise in interest rates in 2004, mortgage origination fell to just under $3 trillion.[8] With this decline, there was significant overcapacity in the mortgage industry. Competition among mortgage originators and brokers intensified. At the same time, investor demand for securitized products remained unabated. To satisfy this demand and their excess capacity, some mortgage originators relaxed their underwriting standards, lending to individuals with a lower standard of documentation and selling mortgage products, which for some borrowers would become unaffordable.

In the past few years, some of the most popular subprime products were adjustable rate mortgages, like the 2/28: a hybrid mortgage with a fixed rate of interest, often free of amortization payments, for the first two years, resetting at an adjustable rate for the remaining 28 years. The fixed rate of interest in the first

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[3] Edward M. Gramlich, *Subprime Mortgages: America's Latest Boom and Bust* 1-2, 6 (2007).
[4] Remarks of Martin J. Gruenberg, Vice Chairman, FDIC, CSBS Annual Conference (May 31, 2007).
[5] Joseph R. Mason and Joshua Rosner, *How Resilient Are Mortgage Backed Securities to Collateralized Debt Obligation Market Disruptions* (Feb. 15, 2007), at 27.
[6] Gramlich, at 6.
[7] Gramlich, at 6.
[8] Gramlich, at 6.

two-year period was typically lower than the initial adjustable rate in the reset period. In the initial period of these resets, rising housing prices enabled these borrowers to refinance their original mortgages on terms more attractive and affordable. Eventually, due to both an upwards adjustment in rates and commencement of principal amortization as these mortgages began to reset in 2005, 2006, and 2007, many borrowers were faced with payment shock. These resets, combined with a decline in housing price appreciation, led to rising delinquencies and defaults among subprime borrowers, first widely evidenced in autumn 2006. In 2007 this trend has continued and spread to other participants in the mortgage industry: several mortgage originators and brokers have exited the industry.

In turn, the mortgage-backed securities investor has felt the repercussions of the weaknesses in the mortgage assets underlying some of these securitized products: in autumn 2006 with rising defaults on the underlying assets, mortgage-backed securities spreads began to widen. Over the past several months, a small number of U.S. and foreign financial institutions and hedge funds that invested in mortgage-backed CDOs and other mortgage-backed securities have reported large losses. Some have suspended or limited redemptions, while others have closed or received capital infusions. At the same time, credit rating agencies announced their intent to downgrade some of these securitized products and revise their ratings methodologies.

The uncertainty regarding both the future prospects of these mortgage-backed securities and the methodologies the credit rating agencies used to rate these securities compelled investors to reassess the risk of these securities and subsequently reassess price. Given the uncertainty of the underlying credit and cash flows, few buyers were willing to risk their capital. Valuation became extremely difficult as a no-bid environment seized certain segments of the market. This reappraisal has spread across the credit market spectrum, first affecting residential-mortgage backed securities and then spreading to other asset classes and, particularly, securitized products. Spreads have widened and a lack of liquidity has affected these other asset classes. The financing of buy-out transactions has also been challenged as higher risk premia resurfaced after a long period of favorable conditions. Volatility has increased: from Treasury bills to the stock markets.

This reappraisal of risk is normal and typically follows periods of widely available credit when markets have undervalued risk. As in other times of reappraisal, investors, adverse to risk and protective of their capital, have fled to quality assets, demanding and driving up the prices—and in turn driving down significantly the rates—of Treasury bills. For example, during the past three weeks, the demand for Treasury securities by global investors was so enormous that rates on the safest, most liquid asset in the world dropped over 250 basis points—a decline of such magnitude not seen in the past.

In early August, this uncertainty began to spread to the asset-backed commercial paper market, typically a very liquid market. The uncertainty surrounding the health of the assets underlying commercial paper (especially asset-backed commercial paper, which represents approximately 55% of the commercial paper market) compelled investors to shorten the terms to maturity that they were willing to purchase and, in some cases, even to decline to buy such paper altogether. Subsequently, banks became increasingly concerned about their own liquidity in view of the possibility that they might have to provide backup for commercial paper and take other assets onto their balance sheets. In response to such developments, the Federal Reserve took several measures to increase liquidity and promote the orderly functioning of financial markets. The Federal Reserve provided additional reserves through open market operations in order to promote trading in the Federal Funds market at rates close to the target rate. The Federal Reserve also lowered the discount rate and changed Reserve Banks' usual practices to allow the provision of term funding at the discount window. Such actions have helped stabilize the markets.

The ultimate impact of these events on the economy has yet to play out. At the time of its discount rate cut, the Federal Reserve noted that "[f]inancial market conditions have deteriorated, and tighter credit

conditions and increased uncertainty have the potential to restrain economic growth going forward. In these circumstances, although recent data suggest that the economy has continued to expand at a moderate pace…the downside risks to growth have increased appreciably."[9]

The Treasury Department respects the independent actions and leadership of the Federal Reserve. Like the Federal Reserve, the Treasury Department shares the perspective that recent market developments pose downside risks to economic growth. However, the economy was in strong condition going into the recent period of volatility, and while certain sectors like housing are undergoing a transition, overall economic fundamentals remain solid. And while recent difficulties in the subprime mortgage market are having and will continue to have a profound effect for many families, the underlying strength of the economy should allow for continued growth. Just last Friday, the President announced plans to help those homeowners facing mortgage delinquencies and foreclosures and I will return to these initiatives later.

Impact of Recent Market Developments on the Mortgage and Credit Markets

The financial services industry has enjoyed a period of extraordinary growth over the last several decades. Key drivers to this growth have been successful engagement with the trends of innovation, institutionalization, and internationalization.

The complexity and innovation of financial products have brought great benefits to the mortgage and credit markets. In the mortgage industry, securitization allows mortgage originators to undertake better risk management as they do not have to hold loans on their balance sheets and instead have another source of capital funding. Investors purchasing a securitized product have reduced transaction costs and can purchase an array of products at targeted risk levels. Homebuyers have expanded product offerings and more lenders competing for their business.

The recent market events have revealed potential complexities in the securitization model. In some cases, risk evaluation of securitized products can be difficult. In mortgage-backed securities and mortgage-backed collateralized debt obligations, the performance of the underlying assets, particularly many of the innovative subprime mortgage products, may not have been properly understood, or investors may have failed to perform adequate due diligence prior to their investment decision. At the same time, mortgage originators may have possessed less incentive to perform appropriate levels of due diligence because of their distributing their loans and the attendant risks through securitization.

Over the past few decades the capital markets have experienced growing institutionalization. These institutions, such as pension funds, mutual funds, and hedge funds, have provided the markets with liquidity, pricing efficiency, and risk dispersion. These institutions have also spurred on financial product innovation and complexity and possess the incentives, resources, and information to make prudent decisions. At the same time, these institutions can be highly leveraged and employ highly correlated strategies, potentially leading to more widespread market disruptions.

Finally, the capital markets are becoming increasingly internationalized. Market participants, sources of capital, product offerings, and trading strategies ignore national borders. This has contributed to the significant global economic growth over the past decade, especially in the emerging market economies. At the same time, an event in one country's market may impact the rest of the world.

Treasury, Administration, and Federal Banking Regulator Actions

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[9] Federal Reserve Press Release (Aug. 17, 2007), at http://www.federalreserve.gov/boarddocs/press/monetary/2007/20070817/default.htm.

The Treasury Department closely monitors the global capital markets on a daily basis. This is especially true given the events unfolding in the credit and mortgage markets. Secretary Paulson has been communicating regularly with federal banking regulators and the members of the President's Working Group on Financial Markets, which includes Federal Reserve Chairman Bernanke, Securities and Exchange Commission Chairman Cox, and Commodity Futures Trading Commission Acting Chairman Lukken. This complements information gathering from market participants, finance ministers, and other participants in the global marketplace. Enhanced communication is vitally important for understanding where disruptions are occurring, and evaluating what actions can be considered.

Under Secretary Paulson's leadership, the President's Working Group on Financial Markets will examine some of the broader market issues underlying the recent market events, including the impact of securitization and the role of rating agencies in the credit and mortgage markets. The Treasury Department will also be releasing early next year a blueprint of structural reforms to make financial services industry regulation more effective, taking into account consumer and investor protection and the need to maintain U.S. capital markets competitiveness.

Most important and in addition to efforts to fully understand the current situation in the financial markets, the Treasury Department, the Department of Housing and Urban Development, and others in the Administration have carefully focused on evaluating the challenges faced by individuals in the subprime market. Last week, the President announced a series of market-based initiatives to help more homeowners keep their homes. The Administration, led by the Treasury Department and HUD, has undertaken several actions to provide assistance to homeowners, including the Administration's continued pursuit of legislation modernizing the Federal Housing Administration. Coordinating with HUD, the Treasury Department also will reach out to a wide variety of entities, such as NeighborWorks America, mortgage originators and servicers, and government-sponsored entities, like Fannie Mae and Freddie Mac, to identify struggling homeowners and expand their mortgage financing options. The President has also asked Congress to temporarily change a provision of the federal tax code that currently considers cancelled mortgage debt on a primary residence as taxable income. The Treasury Department looks forward to working with Congress in the days ahead.

In addition, the federal government has taken several actions to increase transparency and enhance lending standards in the mortgage industry. For example, in 2006, the banking regulators issued supervisory guidance addressing nontraditional mortgages and in June 2007 finalized subprime lending guidance. Separately, the Federal Reserve has undertaken a comprehensive review of the disclosure system for mortgage loans under the Truth in Lending Act and is currently addressing unfair and deceptive mortgage practices using its authority under the Home Ownership and Equity Protection Act. Later this fall, HUD will propose reforms to the Real Estate Settlement Procedures Act to promote comparative shopping for the best loan terms, provide more transparent and comprehensible disclosures, including fee disclosure, and limit settlement cost increases.

Conclusion

The recent volatility in the credit and mortgage markets reflects a reassessment of risk across a broad spectrum of securities. These events have occurred during a time of solid domestic and global growth, helping to mute some of the impact of this turbulence. I do want to caution policymakers that this process is far from over. It will take more time to play out and certain segments of the capital markets are stressed. Risk is being repriced. This repricing will lead to a reevaluation of assets. This reevaluation will inevitably impact the balance sheets of financial market participants. As investors review fundamental characteristics and confidence returns, liquidity will improve. Yet, policymakers must remain vigilant as further stress could create further challenges and continued volatility.

It is critical that policymakers understand these issues and their underlying causes and continue to enhance the capital markets regulatory structure to adapt to market developments. I appreciate having the opportunity to present the Treasury Department's perspectives on these important issues.

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